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Sustainable Financing Instruments

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Environment Policy and Institutional Strengthening Indefinite Quantity Contact (EPIQ)

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Subcontractors: PADCO, Management Systems International, and Development Alternatives, Inc.

Collaborating Institutions: Center for Naval Analysis Corporation, Conservation International, KNB Engineering and Applied Sciences, Inc., Keller-Bliesner Engineering, Resource Management International, Inc., Tellus Institute, Urban Institute, and World Resources Institute

SUSTAINABLE FINANCING INSTRUMENTS: DESIGN ISSUES

- Know your revenue needs

- Does the Instrument generate revenue on sustainable basis? If not, how can obstacles be overcome?

- What are the associated collection/administrative costs?

- Is the instrument politically acceptable? What is the underlying revenue principle?

- What is the nature and magnitude of non-revenue benefits?

For fees:

- What is the good or service for which the fee is levied?

- How large is the fee rate?
- How will introduction of the fee affect demand for the good or service?
- Do efficiency or equity concerns dictate a schedule of differentiated fees?

A GALLERY OF SUSTAINABLE FINANCING INSTRUMENTS

Instrument	Sustainability Issues	Revenue Principle(s)	Non-Revenue Benefits
Pollution Fees and Fines	Increase per unit rates and/or expand collection base to maintain revenues as pollution per facility declines	Damages Principle	If rates are high enough, may create incentives to reduce pollution or non-compliance violations
Natural Resource Taxes	Renewable versus Stock resources; indexing of nominal tax rates	Benefits Principle	May encourage improved efficiency, substitution of less expensive alternatives, recycling
Product Charges	Charge rate must be sensitive to changes in demand, GDP growth, and technological change	Damages Principle	If rates are high enough, may induce use of substitutes that create less pollution or waste
User Fees	Depends on availability of substitutes	Benefits Principle, Ability-to-pay	Users may demand higher quality products (e.g., waste collection services, park facilities)
Permitting and Licensing Fees	Maintaining fees at levels that cover costs of providing these services	Benefits Principle	Facilities may demand improved regulatory process (e.g., fewer delays, improved review)
Donations	Public awareness campaign, maintenance of collection sites, favorable tax treatment for large donations	Willingness-to-pay, ability to pay, Benefits Principle	Creates fewer distortions in markets, mechanism for soliciting donations can increase public awareness
Budget allocations	Commitment to sustain requests	Prioritization	Improved accountability, performance basis for allocations
Grants (mainly bilateral)	Limited in time and scope	Political prioritization	May encourage more accountable and transparent procedures
Loans and equity capital	Not sustainable – used to augment other sources, address cash flow	Ability-to-pay, willingness-to-pay	May encourage better fiscal discipline, cost-effectiveness
Profits from financial operations	Working capital sufficient to earn rate of return to cover expenditure needs	None	Creates potential for leveraging resources

SUSTAINABLE FINANCE IN PRACTICE

- Self-financing of local Environmental Protection Authorities in Romania
- Sustained financing for NGO management of a national park in Jamaica
- Blending financing instruments – the Egyptian Environmental Protection Fund
- A comprehensive program of sustainable financing – the Lithuanian Environmental Financing Strategy

Self-financing of Local Environmental Protection Authorities (EPAs) in Romania

Issues:

- A series of state budget cuts has undermined capacity of local EPAs to carry out compliance activities (permitting, inspections, monitoring, and enforcement)
- As Romania prepares for membership in the European Union, it will face strong pressure to meet compliance schedules

Challenge:

Restore, strengthen and sustain compliance capabilities of local EPAs

The Policy Response:

- Romanian Parliament has amended the Environmental Protection Law to enable local EPAs to charge fees for the compliance “services” they provide to facilities.
- EPIQ has prepared an Action Plan to assist the Ministry in developing the system of fees, determining financing needs for local EPAs and the Ministry’s compliance oversight activities, establishing accountability procedures.
- Romania will launch a pilot in 4 of 43 local EPAs during 2000 to test, analyze, and refine self-financing system.

Sustained Financing for NGO management of a national park in Jamaica

Issues:

- **Under Jamaica's Protected Areas Policy, NGOs can be authorized to manage protected areas**
- Four protected areas including a national park, national marine park, watershed, and coastal fisheries area are currently managed by NGOs
- The Government of Jamaica does not provide financial support to NGOs that manage protected areas
- The Jamaica Conservation and Development Trust (JCDT) manages the Blue and John Crow Mountains National Park, supported in the past by donor grants, grants from the Environmental Foundation of Jamaica, and technical assistance from the Nature conservancy

Challenge:

JCDT cannot sustain financing from donations, membership dues, and grants and needs to expand revenues

The Policy Response:

- The Government of Jamaica has authorized JCDT to collect park entrance fees and fees for selected hiking trails on a pilot basis. These fees generate up to $10,000 per month.
- The Government must decide on the following issues related to the pilot: a) whether to make the fee system permanent; b) what processes to introduce for changing scope and size of user fees; c) whether to allow JCDT to receive all the revenue or share with government agencies with related management responsibilities (Forestry Department); and d) whether to authorize user fees in other protected areas.
- The Nature Conservancy is also analyzing options for introducing tariffs for the production of water in protected areas to supplement user fees

Blending Financial Instruments – the Egyptian Environmental Protection Fund (EPF)

Issues:

- Government of Egypt established EPF to support for environmental projects and other activities
- The EPF has created a competitive projects program to co-finance investments, research, education, and public awareness activities
- Revenue base for EPF limited and uncertain since consists of fines for marine damages and donations

Challenge:

Build up the EPF's working capital

Policy Response:

EPF, with EPIQ assistance, is assessing a range of financing instruments including:

- Expanded donations program
- Improved recovery of marine damages in court cases
- Expanded use of industrial non-compliance sanctions
- User fees at tourism destinations
- Profits from financial operations (loans, equity investments)
- Fees for services provided by the Egyptian Environmental Affairs Agency

A comprehensive program of sustainable financing – the Lithuanian Environmental Financing Strategy (EFS)

Issues:

- **Lithuania has established goal of complying with EU environmental legislation during the next 15-20 years**
- With assistance from variety of donors, the compliance costs for major laws have been estimated
- Lithuania expects to receive financial support from the EU and other donors, but will need to mobilize domestic co-financing

Challenge:

Develop adequate sources of environmental financing to meet demand over the next two decades

Policy Response:

- **Ministry of Environment requested assistance from Danish government in preparing an EFS**
- EFS has analyzed demand for investments, potential sources of financing, and developed an investment program to effectively use donor grants and IFI loans
- EFS includes recommendations for strengthening domestic capacity to prepare investment projects, mobilize additional sources of domestic financing, restructure municipal user fees to ensure full cost recovery of investment expenditures